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As I see

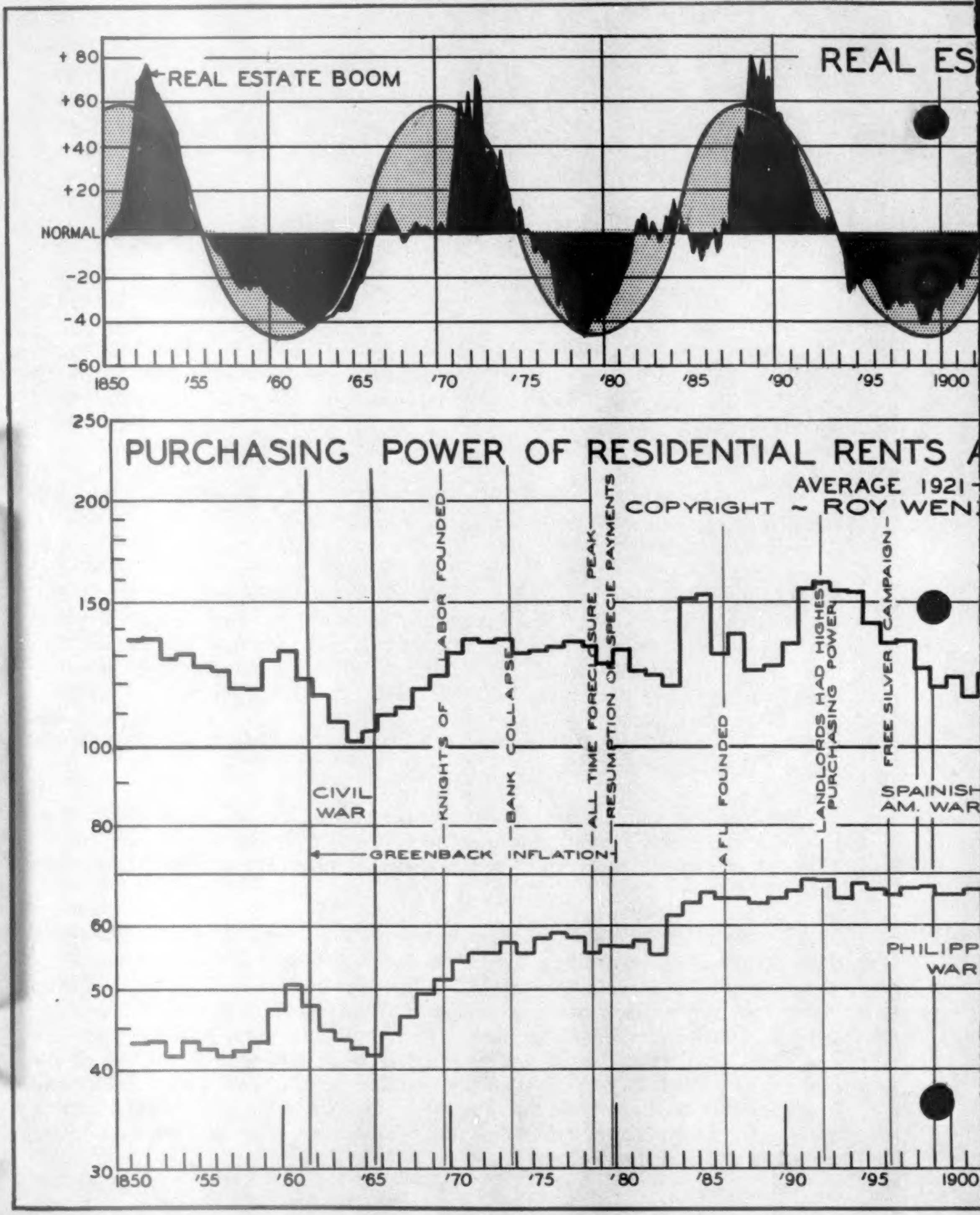
100 YEARS OF FLUCTUATIONS IN RESIDENTIAL RENTS

A little more than 17 years ago I prepared and published the first chart showing the fluctuations of urban residential rents from 1851 to 1934. This was the first study which had ever been made of rental fluctuations over so long a period. Bringing this chart up to the present gives us a continuous record of residential rental fluctuations for slightly more than 100 years.

During the period covered by this chart the purchasing power of the dollar has changed so radically that figures in dollars would mean very little. In 1851, a laborer received 90¢ for a ten-hour day and a carpenter averaged $1.50. It is necessary, therefore, if we are going to study the fluctuations of residential rents to first take out those fluctuations which have been caused by the change in the value of money. The best correction for this, in our opinion, is the cost of a typical list of commodities and services, formerly called the cost of living index and now generally called the consumers' price index. This has been published since 1913 by the Bureau of Labor Statistics. The Federal Reserve Bank of New York has made an effort to carry a cost of living index of this sort back to the early years of the United States and its index has been used to correct the rental figures prior to 1913.

The blue line on the chart following is the resulting index of the fluctuations in residential rents assuming a monetary unit of constant purchasing power. This unit has been considered to be 100 in the 18-year period from 1921 through 1938.

In order to study the fluctuations in residential rents, I have charted with them the general cycles of real estate activity showing the booms and depressions which have occurred from 1851 to the present. It must be remembered that the activity cycle is based on voluntary urban transfers of real estate in relationship to the number of families in the communities for which figures are available. Real estate booms and depressions as portrayed in this manner show real estate prices only in a secondary fashion; that is, real estate prices can be assumed to be high at the top of a boom when the demand for real estate is great, and can be assumed to be low in a period when relatively few real estate transfers are taking place.



REAL ES
REAL ESTATE BOOM
+80
+60
+40
+20
NORMAL
-20
-40
-60
1850 '55 '60 '65 '70 '75 '80 '85 '90 '95 1900
PURCHASING POWER OF RESIDENTIAL RENTS A
AVERAGE 1921 -
COPYRIGHT ~ ROY WEN
250
200
150
100
80
60
50
40
30
CIVIL WAR
KNIGHTS OF LABOR FOUNDED
BANK COLLAPSE
ALL TIME FORECLOSURE PEAK
RESUMPTION OF SPECIE PAYMENTS
AFL FOUNDED
LANDLORDS HAD HIGHEST PURCHASING POWER
FREE SILVER CAMPAIGN
SPAINISH AM. WAR
PHILIPP WAR
GREENBACK INFLATION

Fluctuations in residential rents, of course, are primarily affected by fluctuations in the purchasing power of the dollar. When the general price level rises, if rents are uncontrolled and other factors remain constant, residential rents would show a tendency to rise eventually by approximately the same percentage as the rise in the general price level. It will be noted that I said "eventually," as there would always be a lag in this rise. Rents rise, not primarily because of increases in construction costs, but because of a shortage of dwelling units. The shortage of dwelling units in a free market causes rents to rise until they are apparently high enough to pay a return on the cost of construction of additional units. When they reach this point new building of units for rent starts in quantity and eventually oversupplies the market. Rents will then drop due to the surplus and the fact that landlords will bid against each other for tenants. This drop in rents will stop new construction of dwelling units designed for the rental market, eventually the demand will catch up with the supply, and rents will start another rise. If construction costs rise at a time when a surplus of dwelling units exists, the rise in construction costs will have no effect on residential rent levels, as the falling trend of rents will be due almost entirely to the surplus on the market. If, on the other hand, construction costs rise when a shortage of dwelling units exists, in a free market rents will start to rise almost immediately, as it will be impossible to augment the supply of rental housing without an increase in rents sufficient to offset the increase in construction costs. In a similar fashion a drop in construction costs will not greatly affect the level of residential rents if a surplus of dwelling units already exists, as the surplus will of itself bring about a falling trend. If a shortage of dwelling units occurs, however, at a time when construction costs are falling, new units will be built at lower costs and will shortly force down the rent levels of existing buildings.

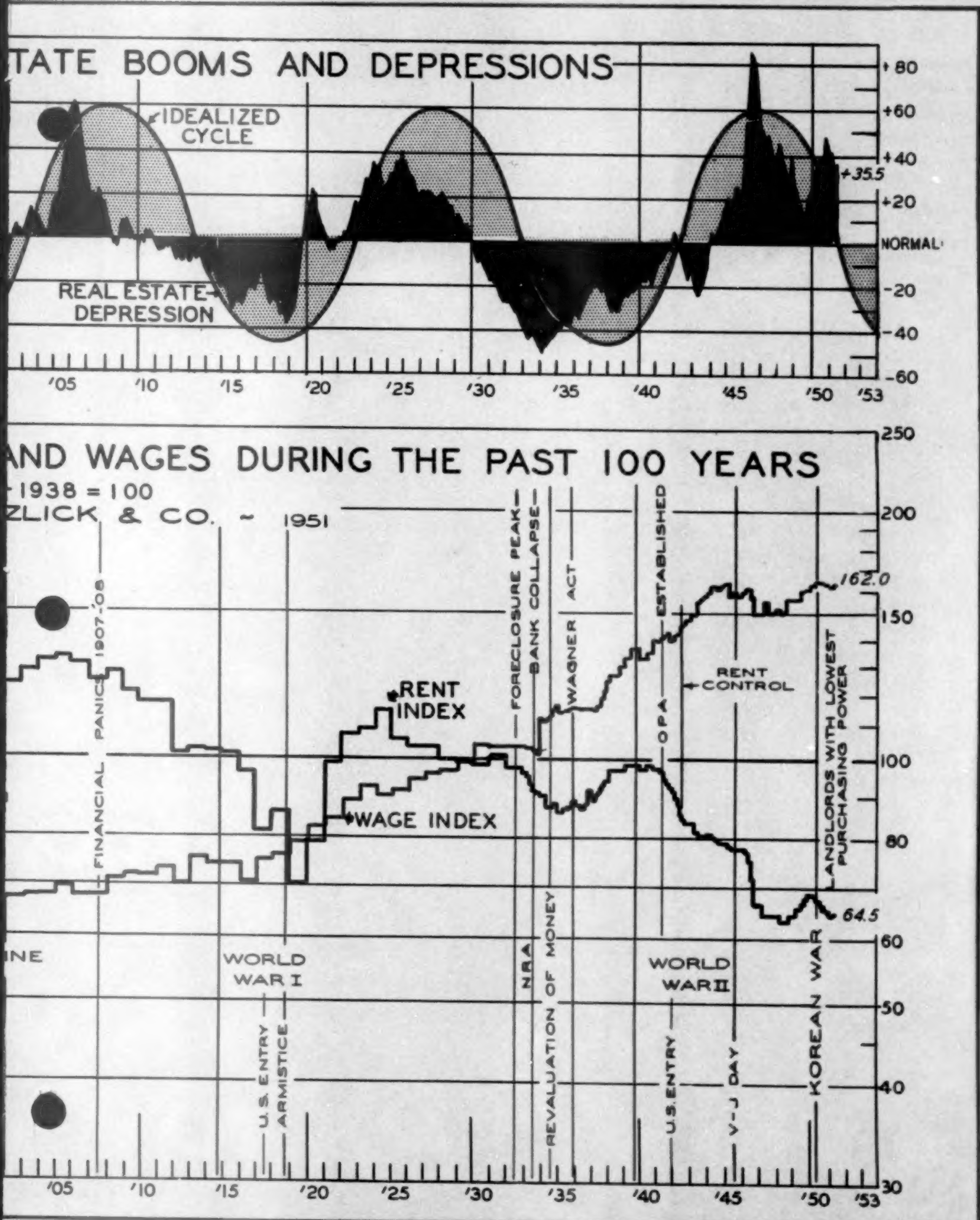
It is quite interesting to study the fluctuations in rent levels expressed in monetary units of a constant purchasing power as shown by the chart in this report. From 1851 through 1864 the trend with only a short interruption was downward. The real estate boom had reached its peak in 1852. A tremendous building boom had occurred and the supply of dwelling units was excessive. The beginning of the Civil War in 1861, the departure from the gold standard and the beginning of the Greenback Inflation did not reverse the fundamental trend, which reached its lowest point in 1864. By this time the surplus had been largely absorbed as there was practically no new residential building during the Civil War period. The shortage of dwelling units which developed at the end of the war brought about rapid increases in rent levels until 1873. In that year, shortly after the real estate boom had topped out, financial difficulties developed and a general bank and stock market collapse occurred. In 1875 Congress passed the Resumption Act stating that on January 1, 1879, the Greenback currency which had been issued to finance the Civil War would again be redeemable for gold at the United States Treasury. This brought about an increase in the value of money and resulted, among other things, in a foreclosure peak in 1878 higher in relationship to the number of families than the foreclosure peaks which we hit in the 1930's. Real estate activity hit its lowest point in 1878 and immediately after

the resumption of specie payments started its upward climb, with a sudden drop in foreclosures. Rent levels continued to drop, however, for five more years, until a housing shortage again developed with rapid increases in rents in 1884 and 1885. In 1893 landlords on the average in the United States received a greater amount of purchasing power per dwelling unit than they have at any time since. For every dollar received for a standard dwelling unit in the base period of 1921-1938 the landlord in 1893 received $1.60. As the boom of the late 1880's developed into the real estate depression of the later 1890's, rents fell, until in 1901 they were only 15% higher than they were in the average of our 18-year base period. The boom of the early 1900's carried them back up but not to the heights of the 1890's, and as this boom collapsed and as World War I developed, rent levels expressed in purchasing power dropped rapidly until in 1918 they were only 44% as high as they had been at the peak of the 1890's.

The credit inflation of the 1920's which accompanied the real estate boom of that period carried them back, but again not to the levels of the preceding period, and as the boom of the twenties developed into the depression of the thirties, rents again underwent a considerable drop. After 1933, however, they started rising again, but before they could regain the depression losses rent control legislation was passed which brought about a rapid decline that apparently has not yet reached bottom. In monetary units of a constant purchasing power, residential rents at the present time are lower than they have ever been as far back as our 100-year records will go. At the present time this level is only 40% of the peak in 1892.

We are constantly told that rent control is necessary in order to protect the worker and that were it not for rent control, rents would "skyrocket." This we have never believed. I have placed on the chart showing rent levels a line in red which shows real wages and salaries. This line, too, is corrected for the changes in purchasing power of the dollar. It represents the amount of goods and services which the average individual can buy with his earnings. The wage earners included represent a cross-section of the employed population of the United States. Firemen, school teachers, coal miners, mechanics, office workers, engineers and waitresses are all represented in the index.

Before the Civil War the real purchasing power of wages was considerably less than 50% of the level in the 18-year base period from 1921-1938. Wages at that time had a purchasing power less than 27% of the purchasing power of the worker today. It might be interesting to compare this fact with the fact that dwelling rents at that time were averaging 2.1 times their present level in monetary units of a constant purchasing power. After the Civil War the purchasing power of wages rose until the middle 1880's, then went sideways with no great changes up or down until the introduction of real mass production in the early 1900's. As a result of World War I mass production methods were greatly improved; far more power, steam and electric, was available per employee, and the real earnings of labor started rising rapidly. From 1917 until 1944 standards of living, in spite of the Great Depression, were constantly rising. A portion of this rise, of course, in the period of the late 1930's and the 1940's was



TATE BOOMS AND DEPRESSIONS
IDEALIZED CYCLE
REAL ESTATE DEPRESSION
+80
+60
+40
+35.5
+20
NORMAL
-20
-40
-60
'05 '10 '15 '20 '25 '30 '35 '40 '45 '50 '53
AND WAGES DURING THE PAST 100 YEARS
-1938 = 100
ZLICK & CO. ~ 1951
FINANCIAL PANIC 1907-08
RENT INDEX
WAGE INDEX
FORECLOSURE PEAK
BANK COLLAPSE
NRA
REVALUATION OF MONEY
WAGNER ACT
OPA ESTABLISHED
RENT CONTROL
LANDLORDS WITH LOWEST PURCHASING POWER
162.0
64.5
INE
WORLD WAR I
U.S. ENTRY
ARMISTICE
WORLD WAR II
U.S. ENTRY
V-J DAY
KOREAN WAR
250
200
150
100
80
60
50
40
30

paid for by government deficits with accompanying deductions from the wage level as shown for income tax payments. Even after these deductions, the wages of employed persons today on the average in the United States in dollars of constant purchasing power are better than 50% above the levels of our base period 1921-1938.

Why employed persons receiving more than 50% actual purchasing power in wages than they received before World War II should be entitled to rent dwelling units at an average cost 36% below the levels of the pre-World War II base period is hard to understand, particularly when the owners of the properties involved are compelled by law to accept this reduced rental.

These charts do not take into account the fact that real estate taxes and maintenance costs have risen tremendously during this 100-year period. These figures deal with gross rentals only, not with the net amount which the owner of the property has left after he pays the expenses necessary to keep the property in good rental condition. In my opinion, rent control is not necessary to protect the renter, and it is clearly an infringement of the rights guaranteed by the Constitution to compel the owners of dwelling units to personally subsidize their tenants. If subsidies are necessary for any class of citizens, these subsidies should be paid by the government with their cost assessed equitably against all taxpayers. The enforced contribution of the owners of rental property is certainly an un-American procedure.

ROY WENZLICK